Information and Communication Technology Agency (Private) Limited - 2017

The audit of the financial statements of the Information and Communication Technology Agency (Private) Limited ("the Company") and the consolidated financial statements of the Company and its subsidiary (" Group") for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations which I consider should be reported to parliament appear in this report. This report is issued in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

1.2 Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Disclaimer Opinion

(a) Eventhough, there were ledger accounts, a sum of Rs.1,157,119,346 in respect of treasury grant, transactions with related parties, pre payments, account payable,provision for gratuity and provision for depreciation had been directly adjusted to trial balance and the financial statement without recording to the respective ledger accounts.

(b) As per the financial statements of the Company, the cost of the property, plant and equipment and intangible assets as at 01 January 2017 were Rs. 2,140,197,281 and Rs. 5,528,113 respectively. However, no fixed assets register and detail schedules were available for audit. Therefore, audit was unable to ascertain the accuracy of such balances. Further, physical verification had not been carried out in respect of Property, Plant and Equipmentfor the year under review.

(c) According to the accounting policy of the Company, the depreciation should be calculated on reducing balance method. However, contrary to that the depreciation had been made on straight line method.

(d) According to Paragraph 63 of LKAS 16, impairment losses should be recognized. However, the company had not done impairment test for the Property, Plant and Equipment.

(e) Contrary to Paragraph 55 of LKAS 19, the Company had been calculated the retirement benefit obligation of all employees amounting Rs.39,149,400 based on half month's salary of the last month of the financial year.

(f) Details in respect of grants received had not been made available for audit. Therefore, audit was unable to verify the accuracy of deferred liability for grant assets amounting Rs. 295,976,497 as at 31 December 2017 and the basis of transferring a sum of Rs.144,192,281 to income statement.

(g) The Company has incurred net loss of Rs. 1,635,436,951 for the year ended 31 December 2017. Hence, the Company's total liabilities exceeded its total assets by Rs.1,855,406,085 and Company's current liabilities exceeded its current assets by Rs.1,816,256,715 as at 31 December 2017. These events indicate the existence of a material uncertainty about the Company's ability to continue as a going concern. The financial statements (and notes thereto) for the year under review do not disclose this fact along with necessary disclosures regarding the existence of plans management has put inplace or the existence of other mitigating factors.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Company and the Group.

Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act, No.07 of 2007, I state the following:

(a) The basis of opinion and scope and limitations of the audit are as stated above.

(b) In my opinion :

- I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and as far as appears from my examination proper accounting records have not been kept by the Company.

- The financial statements of the Company and the Group comply with the requirements of Section 151 and 153 of the Companies Act, No. 07 of 2007.

(c) As per Section 220 of the Companies Act, No.07 of 2007, if at any time it appears to a director of a Company that the net assets of the Company are less than half of its stated capital, the Board shall within twenty working days of that fact becoming unknown to the director, call an extraordinary general meeting of shareholders of the company to by stating the nature and extent of the losses incurred by the Company, and the steps, if any, which are being taken by the Board to prevent further such losses or to recoup the losses incurred. However, Board of Directors of the Company fails to comply with this requirement even though the net assets of the Company are less than half of its stated capital.

2. Financial Statement

2.1 Financial Results

The Operations of the Company and Group year under review had resulted deficits Rs. 1,635,436,951 and Rs. 1,624,891,509 respectively and the correspondingly surplus of the previous years were Rs. 11,271,579 and Rs. 14,169,209 respectively. The increase in the trade and other payable by Rs. 1,367,852,598 had been major reason for this deficit.

2.2 Ratio Analysis

Current retio of the previous year of the Company and the Group were 1:1.7 and 1:1.4 respectively and that retio were 1:42 and 1:31 in the year under review.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions etc

Instances of non-compliance observed in audit are given below.

	Reference to Laws, Rules and Regulations	Non-compliance
(a)	Section 06 (2) of the Information and Communication Technology Act, No. 27 of 2003	The first Digital Government Policy had been prepared for a period of 03 years from 2010 to 2012 and the policy reformulation amendments process was commenced in year 2013. However, it had not been completed and implemented until 06 September 2018.
(b)	Section 150(1) of the Companies Act, No. 07 of 2007 and Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003	Although Management is responsible for the preparation and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards, the annual financial statements of the year under review had been furnished to audit with sixteen months delay.
(c)	Public Enterprise Circular No. PED/12 dated 2 June 2003	
	(i) Section 5.1	Corporate Plan had not been prepared by the Company as requred by the circular.
	(ii) Section 7.4.5	It was observed that some non-current assets had not been coverd by the annual board of survey carried out for the year under review.Hence, the existence of such non-current assets were doubt in audit.
	(iii) Section 9.2	Cadre requirement of the Company had not been identified and approval for the prevailing Cadre of the Company had not been obtained from the Department of Public Enterprises. Further, the Scheme of Recruitments and Promotions for each post had not been formulated by the Company.
(d)	Procurement Guidelines – 2006 of Democratic Socialist Republic of Sri Lanka	At least one member shall be appointed from the line Ministry or external to Procuring Entity who is conversant with procurement for the Technical Evaluation Committees of the Project Procurement Committee.

(i)	Section 2.8.4	However, in some instances the Company had not complied with the requirement.
(ii)	Section 4.2.1(c)	The Company had failed to prepare a detailed Procurement Plan for the year 2017.

3. Operating Review

3.1 Performance

The following observations are made.

(a) The physical progress of 77 projects executed in the year 2017 at a cost of Rs. 568.87 million were in unsatisfactory level. Out of those projects only 7 projects had been achieved 100 percent physical progress as expected at the end of the year under review and 54 projects had shown 0 to 60 percent physical progress as at the expected date of completion. Further, 13 projects which were scheduled to be completed in previous year had not been completed even up to 31 December 2017. However, no satisfactory action had been taken by the Company to expedite the completion of the projects.

(b) A supplementary allocation of Rs. 15,000 million had been provided through the annual budget estimate to the Company for the year 2017 in order to implement 28 new projects without considering the poor project performance reported in previous years. Out of the above allocation, the Company had been received a sum of Rs. 1,194.7 million during the year under review. However, out of that the Company had been utilized a sum of Rs. 605.13 million for the operational cost of the Company.

3.2 Items of Contentious Nature

The following observations are made.

(a) The Company had vested with full autonomy relating to financial and administrative aspects through the decision taken by the Cabinet of Ministers on 16 July 2003, since the World Bank was the principal donor of the e-Sri Lanka programme. However, at present the Company is totally depends on the Consolidated Fund even though the above decision is remained unchanged up to the end of the year under review.

(b) Support and maintenance contracts of the Customer Relationship Management (CRM) module and Human Resources Management (HRM) module of e-Samurdhi project awarded to two contractors had been discontinued by the Company with effect from14 September 2017 after making a payment of Rs. 3.98 million to the above contractors.

(c) A sum of Rs. 130.05 million had been received from the Bill and Melinda Gates Foundation for the execution of three projects. However, contrary to the provisions in the agreement entered with the Bill and Melinda Gates Foundation a sum of Rs. 126.2 million had been utilized for other operational expenditure of the Company.

Further as per project agreement, the completion dates of those projects had been extended up to 30 June 2018. However, the projects had not been completed even as at 30 June 2018. As a result, upon the expiration of the agreement, the unutilized money has to be returned to the Bill and Melinda Gates Foundation by the Company.

3.3 Human Resource Management
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Entire personal files of the employees of the Company were incomplete since the copy of birth certificate & NIC, certificates of educational & professional qualifications, service letters related to the previous working experiences, performance evaluation data, job descriptions and duty lists were not included in the personal files.

4. Achievement of Sustainable Development Goals
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Every public institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030. With respect to the year under review, the Company had been aware as to how to take measures relating to the activities under purview of its scope. The following observations are made in this regard.

(a) Upon being aware of the said agenda for the year 2030, the Company had identified the sustainable development goals such as ensure inclusive and quality education for all and promote lifelong learning, promote inclusive and sustainable economic growth, employment and decent work for all, build resilient infrastructure, promote sustainable industrialization and foster innovation, make cities inclusive, safe, resilient and sustainable and promote just, peaceful and inclusive societies to be achieved in accordance with their scope. However, no action had been taken to identify the targets and milestones up to 2030 and the Company had incorporated the targets and milestones only for 2018 and 2019.

(b) The baseline data as at April 2018 had been taken into account to set out the sustainable development goals since the month of June 2017 instead of taking the baseline data available as at 01 June 2017.

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5. Accountability and Good Governance

5.1 Procurement and Contract Process

The following observations are made.

(a) Out of 595 procurement activities planned to be implemented during the year 2017, only 236 procurement activities had been completed during the year under review.

(b) Procurement of consultancy service for implementing the Unified Ticketing and Billing Platform (ICTA/GOSL/CON/QBS/2016/176) had been commenced at the end of the year 2016 with an estimated cost of Rs.50 million. However,contract had not been awarded to the selected consultant within validity period or even up to 27 March 2018 as per Section 6.5.7(b) and 8.4.1 of the Gideline for Selection and Employment of Consultants - August 2007. Further, no action had been taken to extend the proposal validity period.

(c) Although the previous experience of the bidder should be considered when evaluating the bids submitted for procurement of Anti-virus license (ICTA/GOSL/GOODS/NCB/2016/69-A) as per Section 07 of the invitation for Quatation (IFQ), the Technical Evaluation Committee had not considered this as a minimum qualification requirement in evaluating the bids due to non-submission of previous experience by the selected bidder which was the minimum qualification requirement for selection of bidder.

(d) The Company had signed a Memorandum of Understanding (MOU) with the National Intellectual Property Office (NIPO) on 30 December 2016 to procure and assist for installation and maintenance of necessary hardware and network equipment which should be setup prior to implementation of the e-NIPO Project with an objective to access the Madrid Protocol by the Government of Sri Lanka in 2018. Although a sum of Rs.32.5 million was paid to the Company by NIPO as per Section 3.3 of the MOUin month of December 2016, the procurement process had not been completed even up to 11 April 2018.

(e) Three support and maintenance contracts such as e-services, www.gov.lk and e-revenue license had been awarded to the contractors by following of Single Source Selection (SSS) method instead of being followed a competitive selection method. Further, it was observed that, the Company had entered in to contract with the selected contractor on 4 January 2016. However, the Request for Proposal (RFP) evaluation report had not been finalized by the evaluation committee even up to 10 February 2016. Hence, transparency of procurement process is question to audit.

(f) Manufacturer Authorization letter provided by the selected bidder dated 29 December 2016 for Procurement of Laptop Computers valued at Rs. 598,050 for Provincial Departments of Motor Traffic was not in required format and it includes only the conditions of authorization for Dell products. Hence, it was observed that, this is a major deviation as per Guideline 7.8.4 of the Procurement Guidelines.

(g) Procurement of individual consultants for e-RL data migration (ICTA/GOSL/CON/IC/2016/77) & generate the e-RL loss revenue report and implementation of critical enhancement (ICTA/GOSL/CON/IC/2016/174)

(i) The procurement process followed by the Company for procurement of individual consultants for e-RL data migration (ICTA/GOSL/CON/IC/2016/77) & generate the e-RL loss revenue report and implementation of critical enhancement (ICTA/GOSL/CON/IC/2016/174) is questionable in audit since all proposals were obtained through the e-mail by an officer attached to the Procurement Division of the Company and forwarded by him to the Project Manager during the proposal preparation period.

(ii) The contract for individual consultant for e-RL data migration had been extended in 3 times during the period of 31 December 2016 to 29 August 2017 and the contract of individual consultant to generate the e-RL loss revenue report and implementation of critical enhancement had been extended up to 19 October 2017 by 04 months due to not obtaining proper work plan.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

	Areas of Control	**Observation**
(a)	Assets Management	Activities relating to valuation, documentation, transferring of ownership and safeguard of the Property, Plant and equipment and utilization of resources han not being done.
(b)	Financial Management	Effective financial management strategies had not been implemented.
(c)	Procurement	Procurement files had not been maintained satisfactorily.
(d)	Budget	Allocations made for capital expenditure had been used for the payment of salaries.